

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 NEA-09 IO-10 ISO-00 SP-02 AID-05

EB-07 NSC-05 CIEP-01 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-02 H-01 PA-01 PRS-01 USIA-06 AGR-05

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8804

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GENEVA FOR MTN DEL

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E.O. 11652: N/A

TAGS: ETRD, EFIN, PK

SUBJECT: GOP SUPPLEMENTARY BUDGET MEASURES: ECONOMIC IMPACT

REF: A. ISLAMABAD 1199

B. ISLAMABAD 8099

SUMMARY: GOP FEBRUARY 1, 1975 ANNOUNCED ADDITIONAL
IMPORT DUTIES OF 25 PERCENT AD VALOREM ON 22 ITEMS. IT
ALSO INCREASED EXCISE TAX ON GASOLINE PRICES (UP 7 PERCENT),
KEROSENE OIL (UP 30 PERCENT), AND NATURAL GAS (UP 50
PERCENT), AND INCREASED ELECTRICITY TARRIFFS 25 PERCENT
FOR DOMESTIC CONSUMERS AND 15 PERCENT FOR OTHERS. THESE
MEASURES FOLLOW EARLIER DOWNWARD REVISIONS IN EXPORT
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DUTIES SINCE BEGINNING THIS FISCAL YEAR, AND PARTIALLY

OFFSET THEM. IMPORT MEASURES WERE IMPLEMENTED FOR
BALANCE OF PAYMENTS REASONS AS WELL AS BUDGETARY
ONES. WE ESTIMATE MEASURES WILL INCREASE GOP
REVENUES THIS FISCAL YEAR ABOUT 3 PERCENT. END SUMMARY.

1. FEBRUARY 1, 1975 GOP ANNOUNCED ADDITIONAL IMPORT
DUTY OF 25 PERCENT AD VALOREM ON RANGE OF CONSUMER
ITEMS (REF A) UNDER 22 MAJOR HEADINGS. WE HAVE BEEN EXPECTING SUCH
MEASURES TO BE ANNOUNCED SINCE NOVEMBER. BALANCE OF PAYMENTS
SITUATION HAS CONTINUALLY WORSENERD SINCE THEN DUE TO
SHARPLY INCREASING IMPORTS, AND A SOFTENING IN WORLD
MARKETS FOR PAKISTAN'S MAJOR EXPORTS. AS IT HAS
BECOME INCREASINGLY EVIDENT THAT FOREIGN EXCHANGE
RESOURCES WOULD HAVE TO BE RESERVED FOR DEVELOPMENT,
IMPORTS AND FOODGRAINS, THERE HAS BEEN A DEBATE WITHIN
GOP AS TO WHETHER IMPORT TAX MEASURES WOULD BE
ADEQUATE OR MORE SPECIFIC CONTROLS WOULD BE REQUIRED.

2. ADVOCATES OF TAX (STATE BANK) AS OPPOSED TO DIRECT CONTROLS
HAVE THUS WON OUT IN THIS DEBATE FOR TIME BEING, AND PAKISTAN'S
CONTINUED ADHERENCE TO THE FOREIGN TRADE REGIME
REFORMS OF MAY 1972 CONTINUES. THE ADDITIONAL
IMPORT DUTIES WILL HELP TO CUT DOWN IMPORTS OF LUXURY
CONSUMER GOODS SPURRED BY HIGHER FARM AND TRADE
INCOMES, AND WE REGARD IT AS A POSITIVE SELF-HELP
MEASURE.

3. THE INCREASED EXCISE TAXES ON POL ITEMS AND ON
ENERGY BRING PAKISTAN'S DOMESTIC PRICES FOR THESE
MORE CLOSELY IN LINE WITH WORLDWIDE TRENDS. THE
INCREASES WILL REDUCE THE BUDGETARY COST OF THE SUB-
SIDIES THE GOP CONTINUES TO GIVE ON THESE ITEMS
IN MANY CASES. WE DO NOT EXPECT THAT THE INCREASES
WILL RESULT IN ANY SIGNIFICANT REDUCTION IN DEMAND.

4. SINCE THE BEGINNING OF THIS FISCAL YEAR JULY 1,
1974 WE ESTIMATE CHANGES IN TAX MEASURES ADOPTED
UNTIL NOW PARTICULARLY FOR EXPORTS (REF B) REDUCED EXPECTED
GOP REVENUES BY ABOUT RS. 637 MILLION OR 6 PERCENT. WE ANTICIPATE
THE NEW MEASURES WILLOFFSET THESE REDUCTIONS BY ADDITIONAL
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COLLECTION OF ABOUT RS. 300 MILLION FOR THE REMAINDER
OF THIS FISCAL YEAR.

5. PRIVATE SECTOR INDUSTRIALISTS HAVE CRITICIZED THE
MEASURES LARGELY ON THE PLEA THAT THE INCREASES IN
PRICES OF ENERGY WILL FURTHER FEED THE INFLATION THAT
CONTINUES AT A RATE OF 20 - 30 PERCENT ANNUALLY. THE
NEW TAXES ON AUTO SPARE PARTS AND INCREASED PRICES

FOR PETROLEUM WILL ALSO HAVE SOME EFFECT ON THE
ALREADY INADEQUATE TRANSPORT SYSTEM. NONETHELESS,
EXCEPT FOR THE INCREASE IN KEROSINE PRICES, WE
EXPECT THE INCIDENCE OF THE NEW TAXES WILL FALL MOST
HEAVILY ON THE URBAN MIDDLE CLASS AND WEALTHY FARMERS.
KEROSINE, HOWEVER, IS STANDARD FUEL FOR MANY OF THE POOR,
BOTH URBAN AND RURAL. KNOWLEDGEABLE SOURCES TELL US THAT
THE REASON FOR THE GREATER PROPORTIONAL INCREASE IN THE
TARIFF FOR KEROSINE THAN FOR GASOLINE WAS TO PARTLY
REDUCE THE DISPARITY IN THE PRICE FOR KEROSINE IN RELATIONSHIP
TO GASOLINE AND OTHER POL PRODUCTS AND, THUS, TO REDUCE
THE INCENTIVE TO ILLEGALLY ADULTERATE HIGH COST POL PRODUCTS
WITH LOW-COST KEROSINE.

DECONTROL 12/31/79
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